

Independent Rates Oversight Committee – IROC

July 18, 2011

MINUTES

1. **Roll Call**

Chairperson Peugh brought the meeting to order at 9:30 a.m. Monica Foster called the roll and a quorum was declared. Attendance is reflected below:

Member	Present	Absent
Jim Peugh, Chair	X	
Don Billings (departed at 10:30)	X	
Christopher Dull	X	
Andy Hollingworth, Vice Chair	X	
Jack Kubota	X	
Colin Murray		X
Irene Stallard-Rodriguez	X	
Todd Webster	X	
Gail Welch	X	
Ex-Officios		
Augie Caires, Metro JPA	X	
Ken Williams, City 10	X	

Department representatives: Roger Bailey, Director of Public Utilities; Alex Ruiz, Assistant Director, Tom Crane, Assistant Director, and Tom Zeleny, Deputy City Attorney.

2. **Non-Agenda Public Comment**

None.

3. **Approval of Draft Minutes from May 16, 2011**

Chairperson Peugh asked for a motion to approve the May 16, 2011 Draft Minutes.

**Action:** Committee Member Billings moved, Committee Member Stallard-Rodriguez seconded, with Committee Member Murray absent, all members were in favor to approve the minutes as submitted.

4. **Chair Updates – Chairperson Peugh**

None.

5. **City Staff Updates - Roger Bailey, Public Utilities Director**

- CWA Board approved their budget along with the rate adjustment for FY12 – 7.4% adjustment on untreated water, and approximately 7.7% on the treated water. The City will absorb the adjustments due to having an unusual wet winter.
- Municipal billing system on line as of July 5. The system is running fine.
- Advanced Water Treatment Pilot Project is on line and currently conducting tours, extending the invitation to attend. Mr. Kubota and Chairperson Peugh mentioned they toured the facility and urges members to go.
- Water side: sewer spills for FY11: 115 compared to 127 in FY10; water main breaks for FY11: 2 compared to 5 in FY10.

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- Sewer side: sewer spills for FY11: 40 compared to 30 in FY10.
- Strategic Business Plan is complete and he appreciates all who were involved. This will help us continue to meet customers and community needs as well as help us continue to be leaders in the business to provide excellent service.

6. **Office of City Auditor Presentation – Report on the City-wide Capital Improvement Program: Better Planning and Oversight are Needed to Effectively Identify Capital Infrastructure Needs and Manage Projects**

Erin Noel, Lead Auditor, Office of the City Auditor, and Deandre McCall presented. Ms. Noel began by giving a brief overview of the Report and noted the scope was very broad and there were a lot of findings. She then followed her slides, giving background on the City's Capital Improvement Program (CIP) for installing new and replacing deteriorating capital infrastructure. Ms. Noel gave highlights for each of the findings. She pointed out about the scope, excluded were the Contractor and Contractor Practices to focus on the City's processes given the time to do such a large audit.

She listed and described the Summary of Findings (which included recommendations): 1) City has funding gap for capital needs; 2) The City lacks the oversight of CIP to ensure projects are effectively identified and managed; 3) The City lacks integrated, long-term capital planning to address capital infrastructure needs; 4) The City is taking steps to implement an asset management approach, but process for identifying capital needs is inconsistent among client departments; and 5) E&CP needs to improve project management. She noted for Finding 4, they will go into more depth when presenting the Public Utilities CIP Audit.

She concluded with indicating there were 24 recommendations to the Administration to improve the planning and oversight of its CIP and management of projects. The City Administration agreed with 17 recommendations; partially agreed with 1; and disagreed with 6. The Administration states that the disagreement is largely due to the initial requirement of funds or staff for some recommendations, but believes these changes will streamline processes and ultimately result in saving both time and costs for projects.

IROC members asked for clarification of certain functions, and Ms. Noel as well as Tom Crane provided more clarification. Committee Members Hollingworth and Kubota commended the team for a job well done.

Chairperson Peugh commented on Finding 4, diagram of the process, he feels there should be a definition of what an "adequate system condition" is, and this can be subtracted from the condition assessment. He indicated the Public Utilities should have an adequate system condition defined. He also stated he is concerned that the recommendations #5 and #10 were rejected.

**7. Customer Care Solutions (CCS) Go Live Update**

This item was heard out of order, following Item 9. Michael Vogl, Deputy Director, Customer Support Division, along with Jane Arnold, Project Manager, announced the Customer Care Solutions (CCS) went live successfully on July 5. Ms. Arnold referred to handouts, gave brief background information and proceeded to share the next steps of the process.

Ms. Arnold indicated this project was started in April, 2010 and are on schedule as well as tracking to the budget. She noted the original go-live date was September 30, so we are ahead of schedule. Also implemented is a new Customer Portal which is now on the City's website. Customers will have the ability to pay their bills online, as well as have a platform for the future for more improved services with our "print document" services.

She then discussed the measures in place to track productivity and statistics. She reported they are pleased there have already been approximately 12,000 customers enrolled into the new portal. Billing has successfully been implemented and bills are being produced and mailed. Tracking and cross-checking is taking place for accuracy of the bills to ensure they are reliable and customers are anticipating what their bill should be.

Chairperson Peugh asked if the old system is running parallel with this new system. Ms. Arnold indicated the old system is not running, and is in a "soft" shut down at this time, and are able to currently read-only to compare the systems.

Ms. Arnold shared some history on a conversion standpoint from a customer side. Previously there were 298,000 customer accounts, and a data cleansing effort was done to consolidate and clean up data. After consolidation, there are now 273,108 customer accounts. She added this process was a tremendous effort, and announced the team achieved approximately 99.7% accuracy.

Ms. Arnold concluded with describing some of the customer outreach efforts with the implementation. She listed: CCS go-live announcements, KUBRA - an online customers email campaign, City of San Diego website updates ([customercare@sandiego.gov](mailto:customercare@sandiego.gov)), Command Central – Support Operations, stakeholder engagement sessions, and the Customer Service Office call center. She added customers are utilizing the website email address to communicate. In response to Committee Member Welch's comment regarding the black-out period of billing that KUBRA customers experienced, Michael Vogl, Deputy Director of Customer Support, noted part of the strategy was to turn on paper billing for those customers, since the new site has began. He added this will continue until those customers re-register on the new site.

Mr. Ruiz congratulated the Customer Support team for their success and expertise during this project. He added working with the staff and consultants has been very impressive and commends all who are taking part in this effort.

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8. **Presentation on the impact of the City’s Announcement that the January 2012 Metropolitan Water District Water Cost Increases will not be Passed on to City of San Diego Ratepayers**

Mr. Ruiz made a note that this item should be more properly titled, “Deferral of Rate Increases from the CWA” rather than the MWD. He indicated steps have been taken to defer the pass-through from the County Water Authority. He then referred to the Mayor’s Fact Sheet that was distributed. Given the amount of recent rainfall, the City had the ability to forgo the pass-through previously taken to Council. He gave a brief background of the history of increases and added we have only committed to forgoing the rate increases for FY12, and are now looking at where to mitigate costs for FY13 if possible. He indicated he feels confident about absorbing the rate increase for FY12, at the same time, always looking for systemic changes in our operations such as consolidating maintenance activities, moving our maintenance operations around to create greater efficiencies, looking at IT spending, position counts, etc. to save costs.

Vice Chairperson Hollingworth commended the Department for taking this into consideration and at a perfect time, due to the recession and numerous layoffs many are experiencing. Ex-Officio Williams concurred.

9. **Proposed changes to San Diego Municipal Code 67.38 “Emergency Water Regulations”**

This item was heard out of order, following Item 6. Chris Robbins, Water Conservation Supervisor, presented on proposed changes to the Municipal Code with regard to year-round water use restrictions. He reminded IROC the City moved out of the Level II Drought Alert condition, and during the April 20 NR&C meeting, there was a conversation between Council members about putting specifics in the Municipal Code for emergency water regulations to define how long a customer has to repair a water leak. Later it was concluded that 72 hours would be appropriate and making this a permanent change, which are similar to State laws.

Mr. Robbins provided copies of the actual strike-out and addition text to the Municipal Code in advance, showing the changes. He then requested that this move forward to NR&C, and then to follow with City Council.

Committee Member Billings commented he would prefer tiered water rates, and use them to affect whether customers waste or not. He is not in favor of the philosophy of the code changes. Ex-Officio Williams concurred.

**Action:** Chairperson Peugh asked for a motion. Committee Member Kubota moved to support the changes, Vice Chairperson Hollingworth seconded. With Committee Member Murray absent, and Committee Member Billings opposing, all others were in favor.

**10. Public Utilities Department – Third Quarter Capital Improvement Program Report**

Guann Hwang, Deputy Director, Engineering and Program Management Division, presented the Third Quarter CIP update. We indicated this was discussed at the earlier Finance Subcommittee meeting. He referred to the distributed report, first pointing out project highlights with significant milestones in this period. He then described the dashboard information with high level review of the Program showing highlights and planned vs, actual expenditures (unaudited) for Water and Wastewater for FY2011.

Also included in this report, Mr. Hwang reviewed the Water and Wastewater mileage updates. For the Water side, the Department of Public Health requires the award of contract of 10 miles of cast iron main replacement per fiscal year. The Department's goal is 35 miles, by the end of the 3<sup>rd</sup> quarter, 15.5 miles have been awarded. Out of this 11.25 are cast iron. He noted it is anticipated to award 31.2 toward the end of June.

For the Wastewater side, The EPA Consent Decree mandates the repair, replacement, and rehabilitation of 45 sewer miles for FY2011. It is anticipated that approximately 40-42 miles will be completed by the end of the fiscal year. The Department plans to use approximately 5 miles of the 14.05 banked miles that have been accumulated from fiscal years 2009 and 2010 to fulfill the mileage requirements of 45 miles.

Mr. Hwang then reviewed the comparison between the forecast and actual expenditures for each and every project. For this quarter, the provided chart of projects is listed very comprehensively. Also included in the packet, he reviewed the Project schedule for both Water and Wastewater. Last, he referred to and discussed the provided Change Order Log. In the last quarter, only 2 projects exceeded 10%.

**11. Public Utilities Department Capital Improvement Program (CIP) Funding Strategy**

Lee Ann Jones-Santos, Interim Deputy Director, Finance and Information Technology, and Jeanne Cole, Interim Program Manager, Rates & Finance, presented the 5 year CIP financing plan. This was requested by the Office of the City Auditor as part of the audit they are performing on behalf of IROC. She reminded IROC the handouts today were sent to IROC for review covering the Water and Wastewater Branch CIP Financing Plans and also CIP Projected Expenditures from the EPM and E&CP group. She noted the schedules are "drafts" pending the release of the FY10 CAFR which she indicated is anticipated in the late August/early September timeframe.

Ms. Jones-Santos then reviewed the listed Water Forecast Expenditures. Ex-Officio Williams asked if there is a guideline followed as to how much Pay-Go to use. Ms. Jones-Santos stated they use a Department standard of 80/20; Ms. Cole indicated this compares to other municipalities and is very standard. Committee Member Webster asked in regard to the Grants and Others for FY13-16, he asked what these are and can they be deferred or pushed out. Ms. Jones-Santos indicated this will be covered at the September IROC meeting, and will give background of all opportunities.

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Ms. Jones-Santos asked for questions regarding the Water Fund schedules. Vice Chairperson Hollingworth requested the City Auditor add to this schedule: Cash Balance, Reserve Balance, and the Debt Coverage Ratio in the projected revenues in the Bond fund, Water fund, and the Wastewater fund. Ms. Jones-Santos concurred.

She then reviewed the Wastewater Forecast Expenditures, which followed the same methodology as the Water Branch. She notes part of what the Wastewater Branch anticipates is that we will need new Bond Funds late 2013, possibly 2014 with the upcoming Cost of Service Study. Again, after the FY10 CAFR, will be re-evaluated.

12. **Sub-committee Reports:**

a. **Finance**

- Discussed the CIP Program and use of Annual Allocations

b. **Environmental & Technical**

- Discussed the Public Utilities Department Environmental Mitigation Program stemmed from the recent Tecolote Canyon tree removal.
- Discussed the cancellation of funding for local water projects based on the lawsuit at the CWA with MWD. Not having an effect on the City of San Diego.

c. **Public Outreach, Education & Customer Service**

- Overview from Public Utilities Department on Human Resources activities regarding the consolidation, reductions, and reducing costs and how to retain employees.

13. **Metro/JPA – Report Out**

- Report on the year-end projections and operating and CIP budget – all accepted.

14. **FY10 IROC Annual Report Adoption**

This item is not ready to be heard due to areas in the Finance portion of the Report needing review. Vice Chairperson Hollingworth indicated, after meeting with management, his concerns have been addressed or will be addressed; as a result, he will be revising the Finance portion of the Report. He thanked the Department for addressing them.

Committee Member Dull recommended having an alternative version, giving the full Committee 2 versions that can be weighed in on if the Finance Subcommittee cannot come to an agreement. Committee Member Kubota supported this strategy, and suggested a Special Finance Subcommittee meeting he can attend. Vice Chairperson Hollingworth concurred to having a Special Finance Subcommittee meeting scheduled sooner than the full IROC Committee meeting of August 15 to finalize the Finance portion.

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15. **Accepting nominations for IROC Chair and IROC Vice Chair positions:**

Chairperson Peugh asked for a motion for nomination of members for Chair and Vice Chair positions.

**Action:** Committee Member Webster moved to nominate Jim Peugh as Chair and Andy Hollingworth as Vice Chair for IROC. Committee Member Stallard-Rodriguez seconded, with Committee Member Murray absent, all were in favor.

16. **Accepting nominations for Finance Subcommittee**

Chairperson Peugh asked for a motion for nomination of members for the Finance Subcommittee.

**Action:** Vice Chairperson Hollingworth moved to nominate Augie Caires. Committee Member Kubota seconded, with Committee Member Murray absent, all others were in favor.

17. **Should IROC and its Sub-committees Meet in August?**

It was decided there will be a full IROC meeting in August; there will not be a Public Outreach, Education, & Customer Service Subcommittee meeting in August; there will not be an Environmental Subcommittee meeting in August; and the Finance Subcommittee will decide at a later date.

18. **Proposed Agenda Items for future IROC meetings**

- Accepting nominations for Environmental & Technical and Public Outreach, Education & Customer Service subcommittees. Per Tom Zeleny, Deputy City Attorney, this will require an amendment to the IROC By Laws, and this can be done.

Mr. Zeleny noted that quorum requirements for the subcommittees are: more than half of the subcommittee present at the meeting.

19. **IROC Member's Comments**

None.

The meeting was adjourned at approximately 11:30 a.m.